

**The Changing Massachusetts  
Health Care Environment:  
*Implications of Current Rapid  
Growth In Spending***

**Presented by Stuart Altman,  
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# **Cost Control Efforts: Slowing the Rate of Increase**

- **Current Trends**
- **Employer/Purchaser Strategies**
- **Strategies to Control Prescription Drug Costs**

# Context: Recent Experience

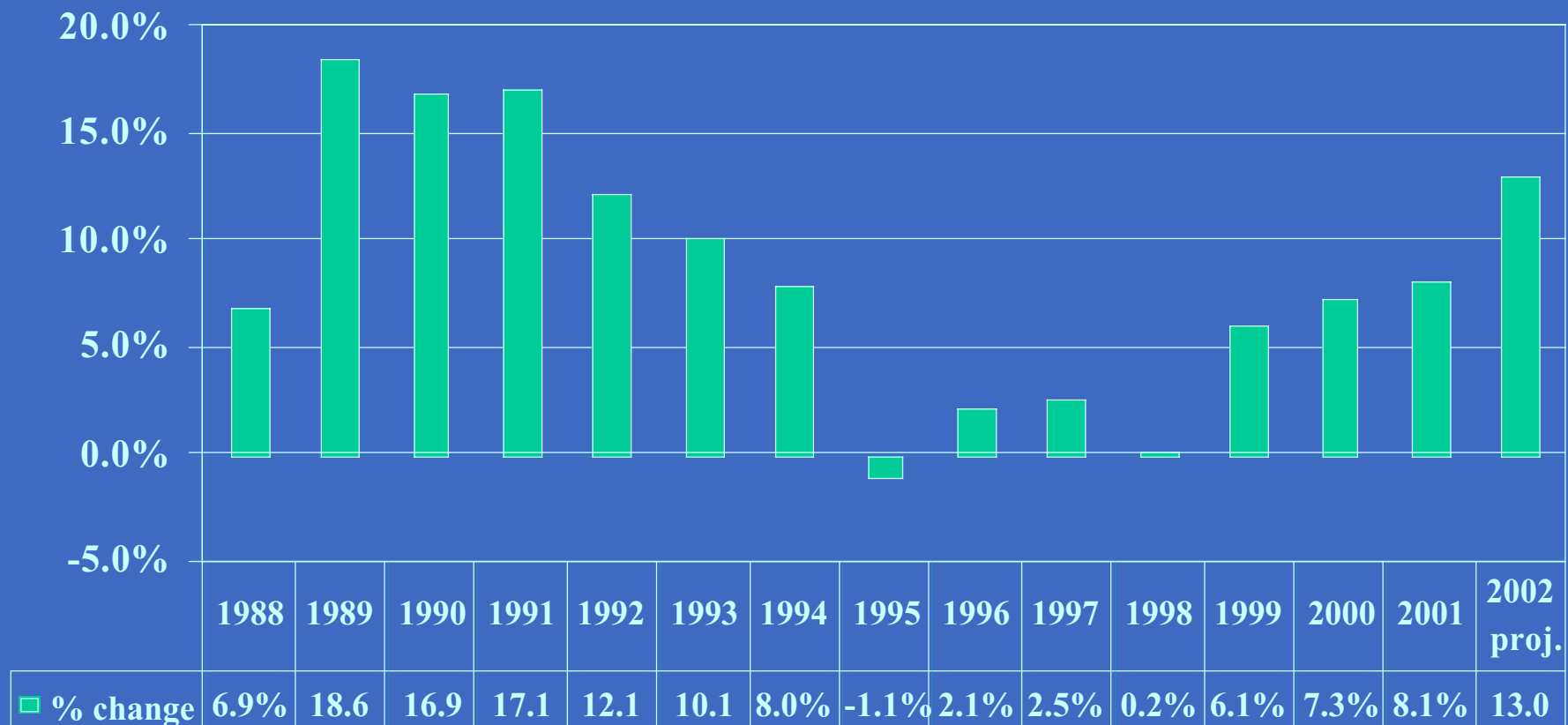
- HMOs and providers in financial distress.
- Several years of little to no increase in premiums.
- Now, premiums have increased.
- HMOs seem better off.
- Some providers, but not all, have improved.

# Context: Recent Experience

- Premiums still increasing.
- Economy in slow-down; employers have less to devote to health care costs.
- Increased unemployment.
- Declining state revenue; less available for Medicaid rate increases, while enrollment may rise.

# Cost Increases: Employer/Purchaser Perspective

## Health Benefit Cost Trend, All Employers



Source: William M. Mercer, Incorporated

# Cost Increases: Employer/Purchaser Perspective

HMO Monthly Premiums,  
US and Massachusetts (1990 and 1998)

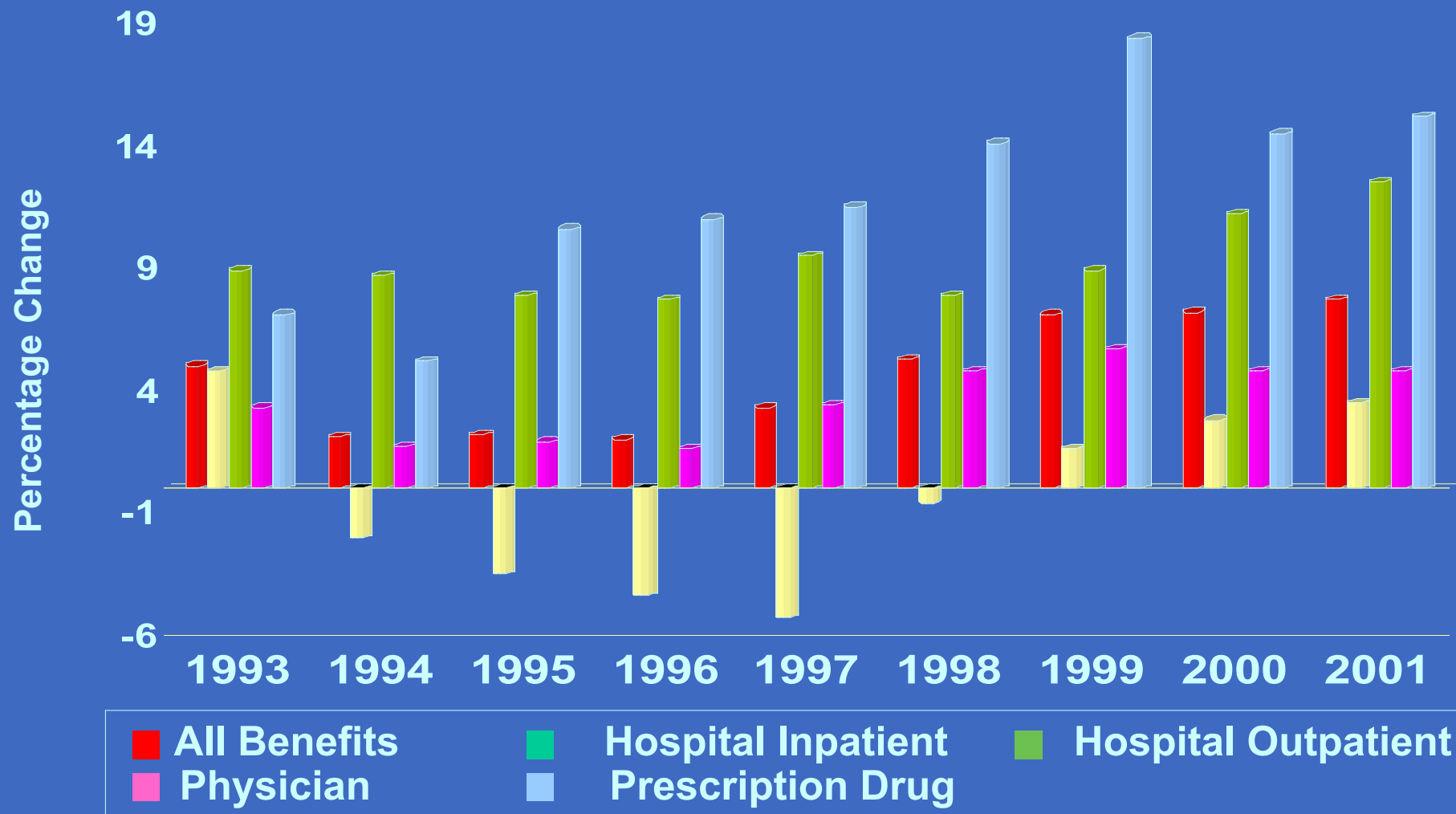


Source: "Massachusetts Health Care Trends: 1990-1999," Massachusetts Division of Health Care Finance and Policy, October, 2000.

**Increased Health Care  
Spending Driven Primarily By  
Increased Utilization**

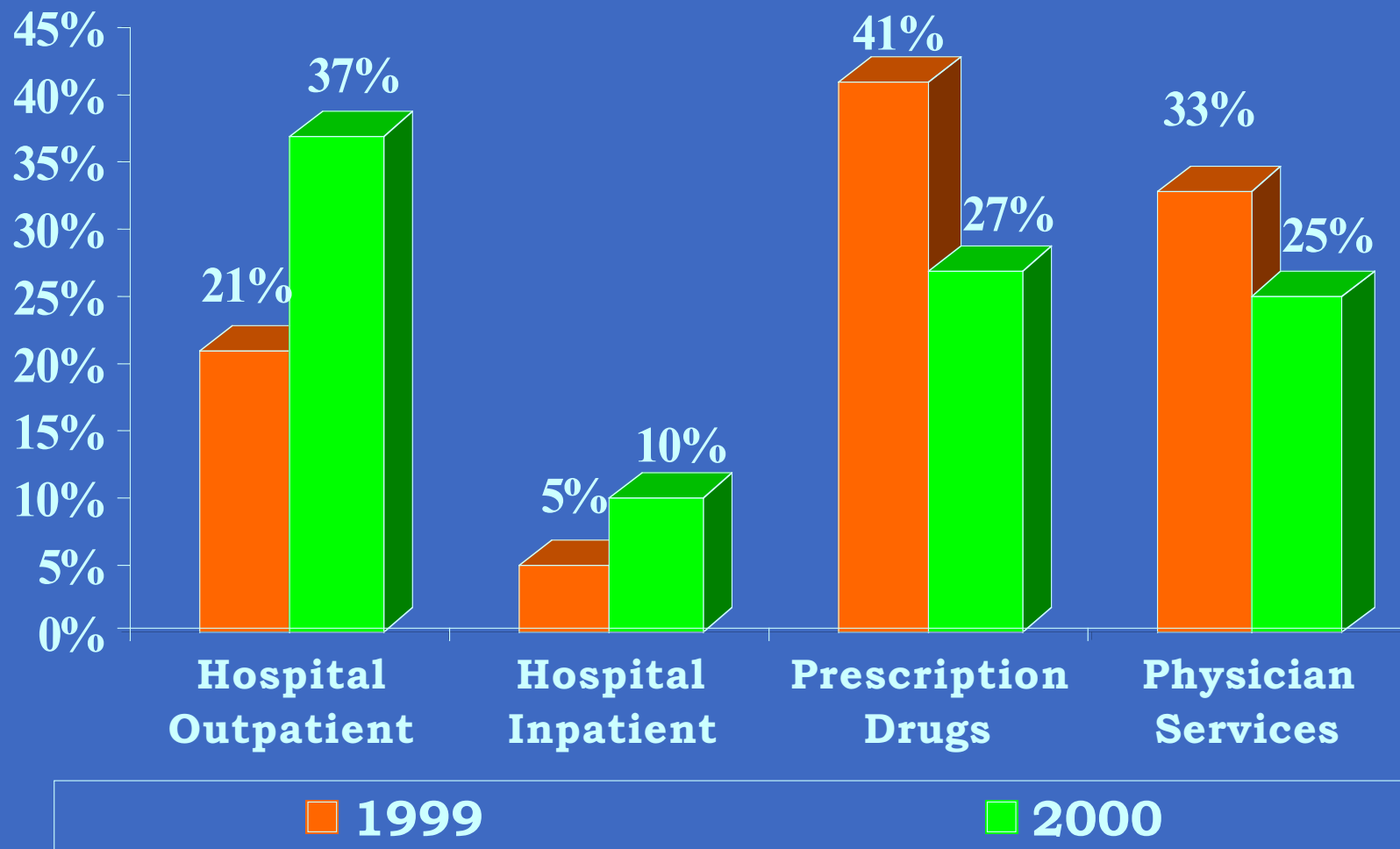
# Growth Rates In Per Capita Health Care Spending

## *The Return of Increased Hospital Spending*



Source: Strunck, Bradley C., et. al. "Tracking Health Care Costs: Hospital Care Surpasses Drugs as the Key Cost Driver" Health Affairs. (web exclusive) September 26, 2001, [www.healthaffairs.org/Strunk\\_Web\\_Excl\\_92601.htm](http://www.healthaffairs.org/Strunk_Web_Excl_92601.htm)

# Percentage Contribution of Sector For Yearly Health Cost Increase



Source: Strunck, Bradley C., et. al. "Tracking Health Care Costs: Hospital Care Surpasses Drugs as the Key Cost Driver" Health Affairs. (web exclusive) September 26, 2001, [www.healthaffairs.org/Strunk\\_Web\\_Excl\\_92601.htm](http://www.healthaffairs.org/Strunk_Web_Excl_92601.htm)

# Massachusetts Hospital Margins: 1996 – 2001\*

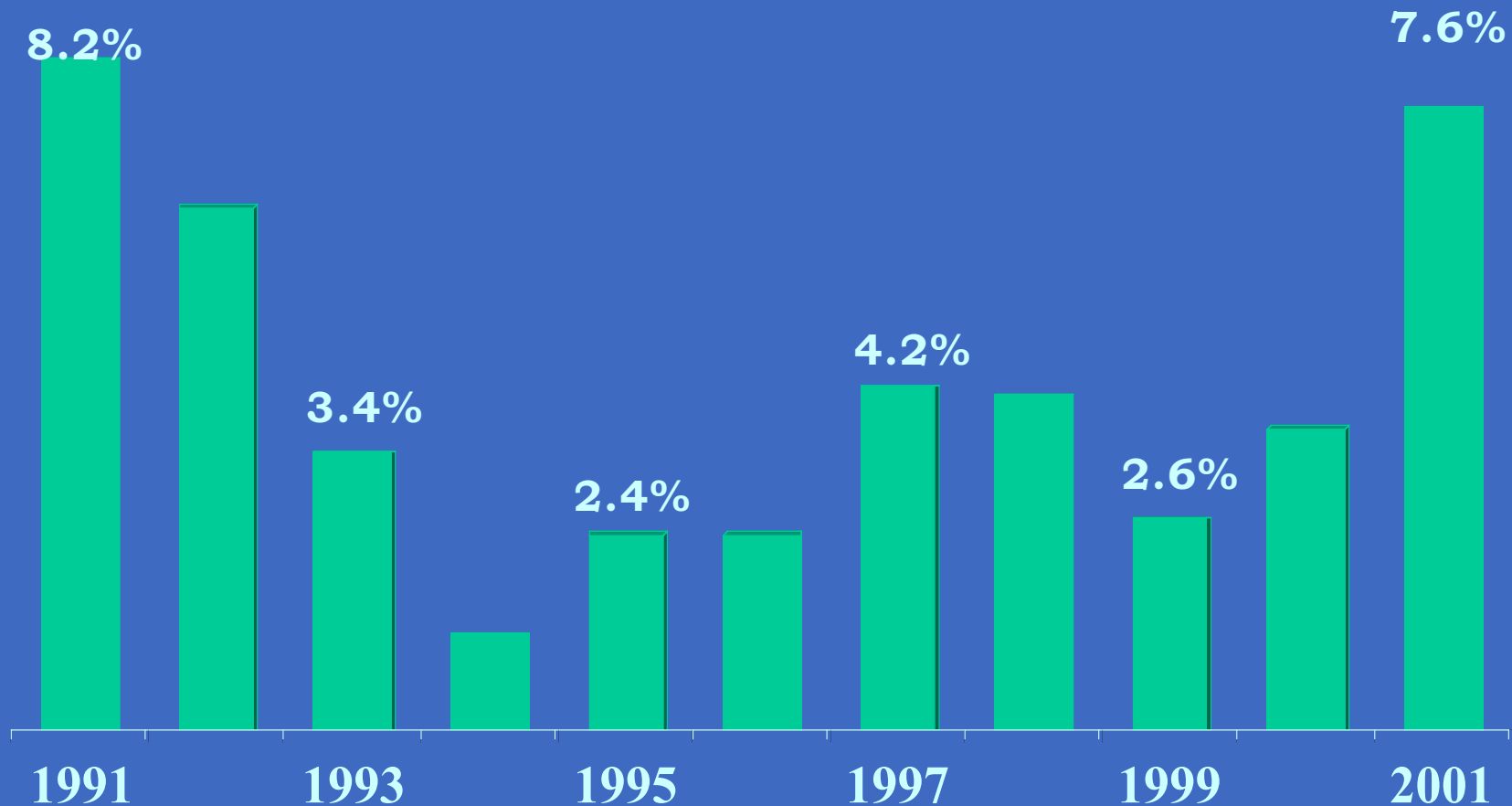


\*FY 2001 data is Q2 YTD and based on survey responses from 53 hospitals; other figures (year end) based on audited DHCFP financial statements (1996-1998) and MHA Quarterly surveys (1999-2001). Margins are weighted averages.

**Why?**

# Hospitals Payroll\* Cost Growth

*Are We Returning To The 1980's?*



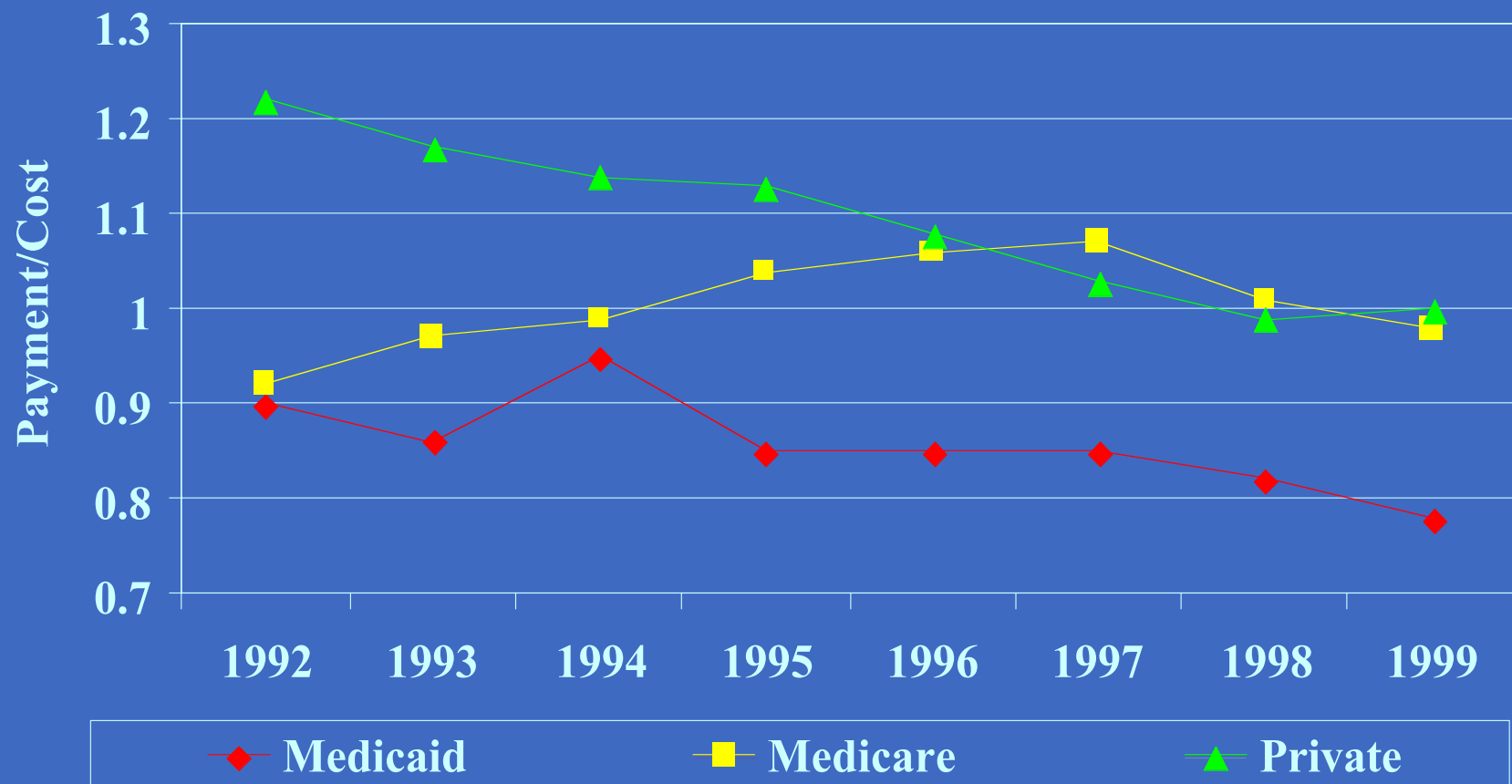
\*Payroll is a sum of the average hourly wage and total hours worked per capita.

Source: Strunck, Bradley C., et. al. "Tracking Health Care Costs: Hospital Care Surpasses Drugs as the Key Cost Driver" Health Affairs. (web exclusive) September 26, 2001, [www.healthaffairs.org/Strunk\\_Web\\_Excl\\_92601.htm](http://www.healthaffairs.org/Strunk_Web_Excl_92601.htm)

**As Private Payments Increase  
Medicaid Payments Relative to  
Costs Could Continue To  
Decline**

# Medicaid Hospital Payment to Cost Ratio Among The Lowest In The Country

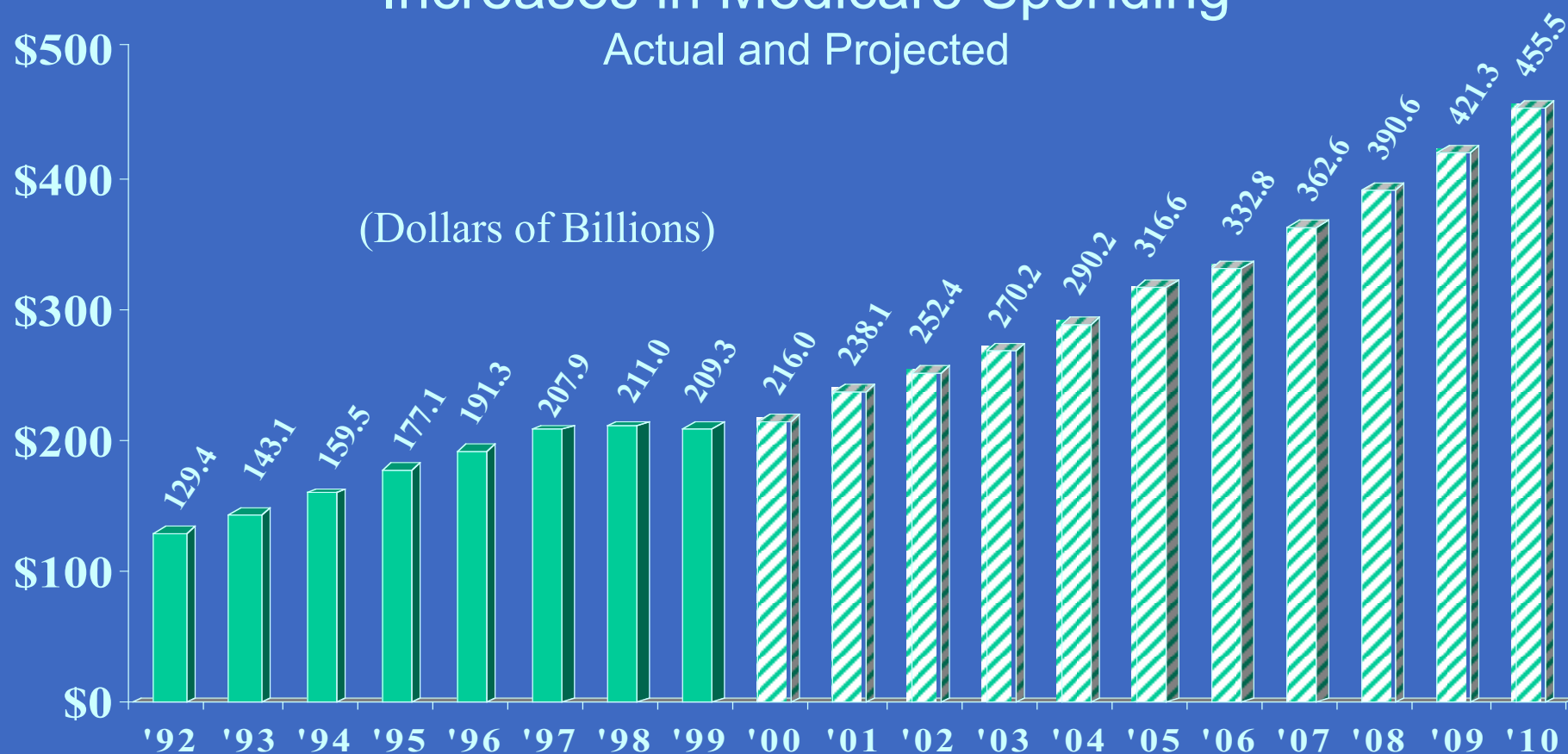
Other Payers Also Paying Less Than Cost



**Medicare Payments Should  
Grow---But Watch Out For A  
New Balanced Act !**

# What Will Happen to Medicare Spending After BBA

## Increases in Medicare Spending Actual and Projected



# Context: Possible Implications of Increased Health Care Spending

- System may adjust to higher health care spending, but with significant fall-out:
  - Higher insurance costs for employers and employees.
  - Increased rates of uninsurance.
  - Increased uncompensated care.
  - Increased Medicaid enrollment.

# Context: Possible Implications of Increased Health Care Spending

- Possible Access Problems
  - Not all providers have turned the corner; some may curtail services, even close
- Possible Pressure for More Government Involvement
  - Increased monitoring and reporting
  - Increased regulation and intervention (?)

# Constraining Cost Increases: Employer/Purchaser Strategies

- **Tools:**
  - **Consumer financial incentives**
  - **Provider financial incentives**
  - **More information on quality, efficiency and cost**

# Constraining Cost Increases: Employer/Purchaser Strategies

- Self-Insurance with direct provider network contracting
- “Efficiency Networks” with primary care provider incentives
- Enhanced disease management
- “Activated Consumerism”

# Constraining Cost Increases: Employer/Purchaser Strategies

- “Activated Consumerism”:
  - Financial incentives for cost-effective choices of health plan, prescription drug, and provider
  - High-deductible plans with medical savings accounts
- More than cost-shifting; changing the system?

# Constraining Cost Increases: Employer/Purchaser Strategies

- **Quality Focus: “Leapfrog” Initiative**
  - High volume for certain procedures;  
Intensivists in ICU; Computer Order Entry  
Systems
- **Not direct measures of quality**
- **What about community hospitals?**

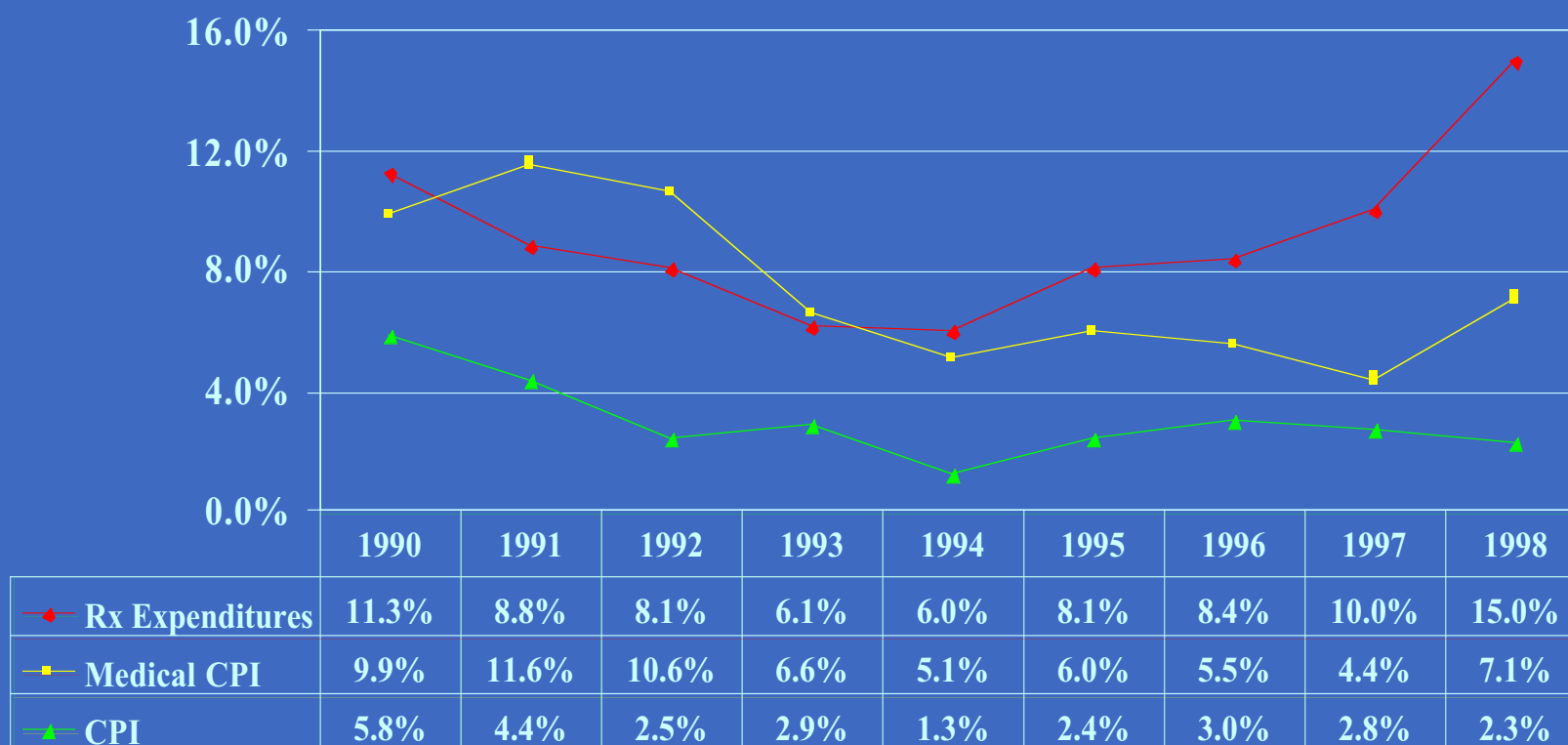
# Constraining Cost Growth: Employer/Purchaser Strategies

- More information is good.
- Incentives for medically appropriate cost conservation are not bad.
- Unlikely to change utilization patterns and cost in the short term.
- Consumers/voters may prefer government intervention to increased complexity and out-of-pocket costs.

**Focus On Major Cost Driver:**  
*Prescription Drugs*

# Prescription Drugs: Cost Growth

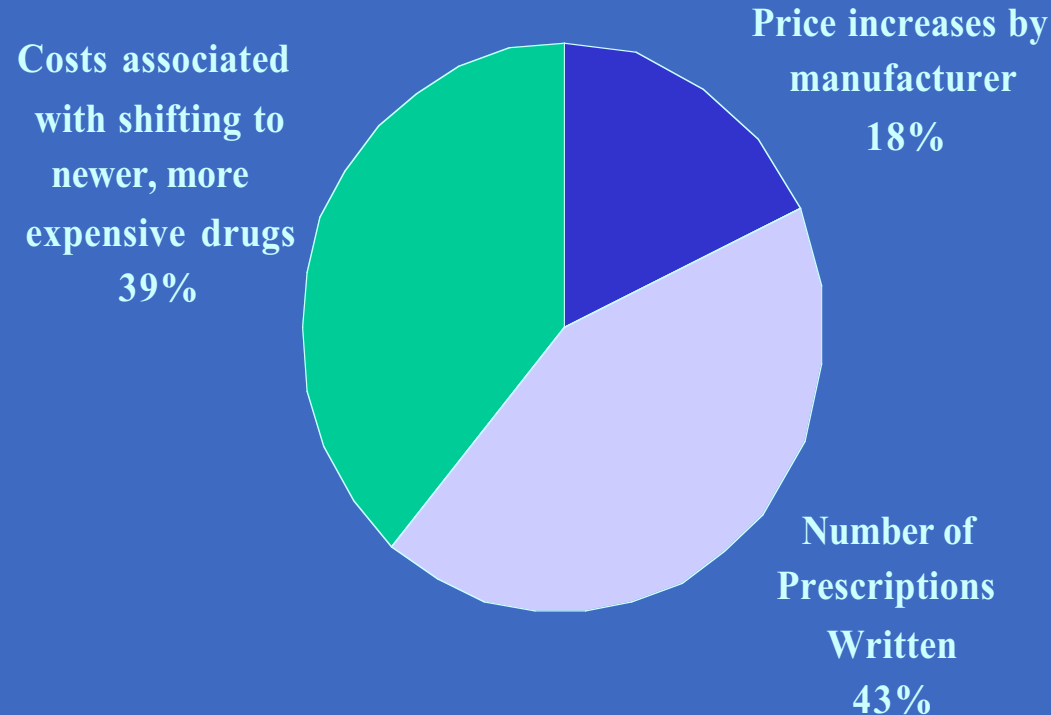
Annual Change in MA Prescription Drug  
Expenditures and Boston Regional Inflation Rate  
(1990-1998)



Source: Health, United States, 1999, US Department of Health and Human Services; US and Boston Regional Consumer Price Index 2000, US Bureau of Labor Statistics. Medical CPI and CPI are for the "Boston-Brockton-Nashua, MA-NH-ME-CT" region

# Prescription Drugs: Cost Growth

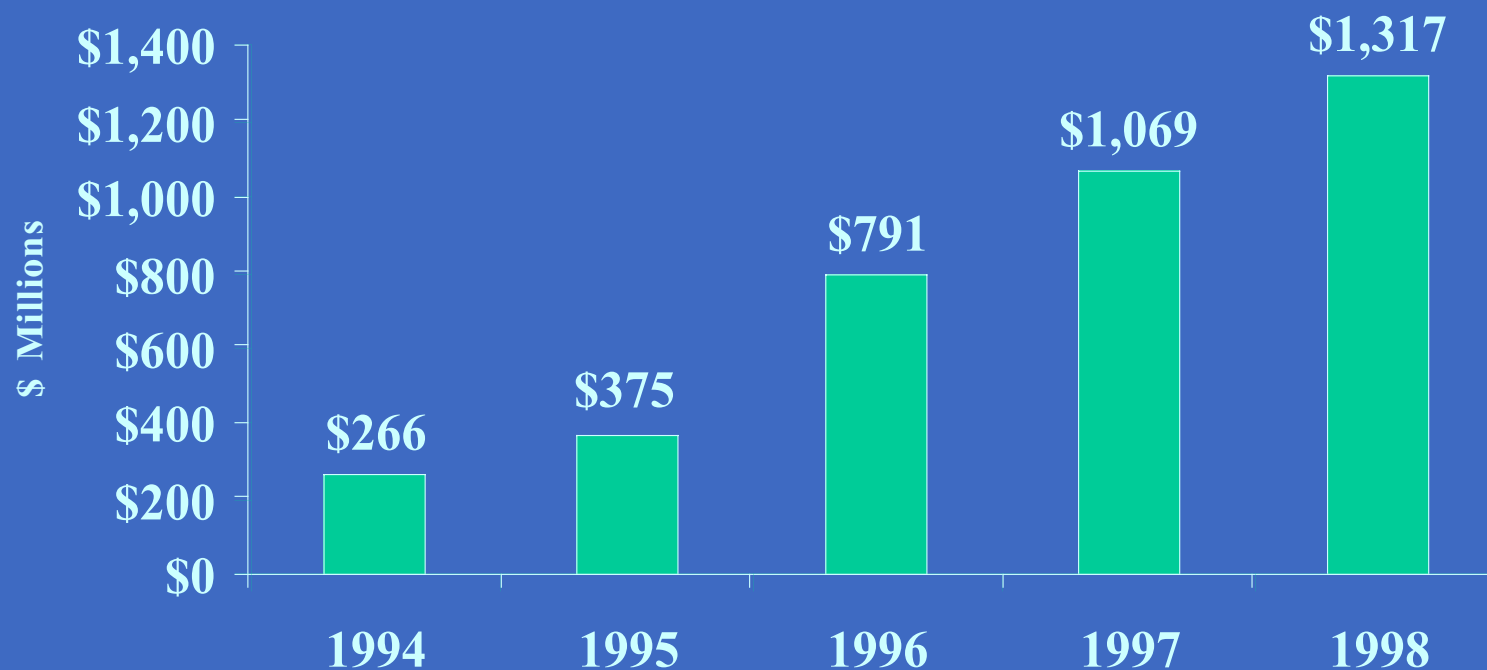
## Relative Factors Contributing to Rising Prescription Drug Expenditures, 1993-1998



Source: Kreling, David H., et. al. Prescription Drug Trends, A Chartbook. University of Wisconsin - Madison and the Kaiser Family Foundation. July 2000.

# Prescription Drugs: Cost Growth

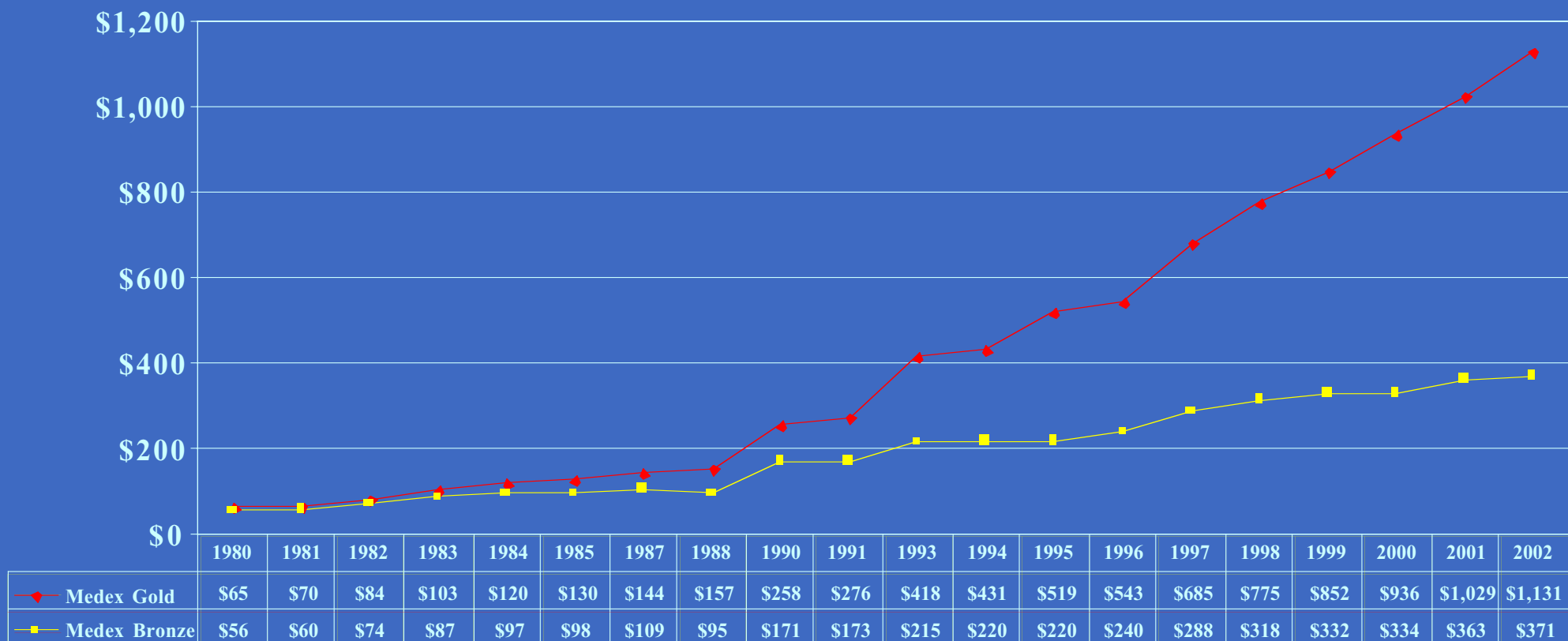
## Total Direct-to-Consumer Promotional Activity Spending by Drug Manufacturers, 1994-1998



Source: Kreling, David H., et. al. Prescription Drug Trends, A Chartbook. University of Wisconsin - Madison and the Kaiser Family Foundation. July 2000

# Prescription Drugs: Cost Growth and Access Issues

## Blue Cross Blue Shield of Massachusetts Medex Gold and Medex Bronze Premium Rates



Source: Division of Insurance

# **Prescription Drugs: Constraining Cost Growth, Facilitating Access**

## **Prescription Advantage**

- Insurance product provides coverage for all seniors with
  - Subsidies for low income enrollees**
  - Out-of-pocket limits for all**
  - No waiting time could generate adverse selection****
- Increases access; includes discounts and tiered co-payments to control costs.**
- Current structure could require significant state subsidies**

# Prescription Drugs: Constraining Cost Growth, Facilitating Access

Medicaid:

- Legal constraints on formulary and co-payments
- Administrative tools to control costs:
  - Prior approval of brand name with generic equivalent; Preferred drug list
  - Provider education

# Prescription Drugs: Constraining Cost Growth, Facilitating Access

## Multi-State Purchasing Collaborative Arrangements

- Northeast Legislative Association on Prescription Drugs
  - Investigating bulk purchasing, other strategies

# Prescription Drugs: Constraining Cost Growth, Facilitating Access

- Discount Cards: Cost control through discounts, restricted networks and formularies
- Physician Education: widespread use; some reports of good results
- Purchasing Abroad: lower price; possible quality issues for certain non-FDA approved drugs; systematic use likely to provoke industry protest.

# Prescription Drugs: Constraining Cost Growth, Facilitating Access

- Cost-shifting strategies may encourage more economical usage, unlikely to affect underlying prices.
- Federal government controls patent protection, approved usage, and interstate commerce.
- Many would accept more state regulation if legally permissible and effective at controlling costs.

# **Prescription Drugs: Constraining Cost Growth, Facilitating Access**

- **Focused analytical effort, considering legal and economic options**
- **Investigate other countries' systems for good and bad aspects**
- **Work with other states and federal government; shared interest in controlling cost increases**

# **Context: Possible Scenarios For State Actions**

- **Need to Assess Balance Between Increase Access, Freedom of-Choice and Provider Payments**
- **Increase monitoring and reporting on financial conditions, costs and utilization**
- **Assess tools available in the event of serious access problems**